

Trust Land Management Division

FISCAL YEAR 2007
ANNUAL REPORT

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Trust Land Management Division

Mission

Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.



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Trust Land Management Division

Managing the state of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.

Overview

General background information on the Trust Land Management Division (TLMD) is available on the department's website: www.dnrc.mt.gov/trust/.

History

By the Enabling Act approved February 22, 1889, the Congress of the United States granted to the state of Montana, for common schools support, sections 16 and 36 in every township within the state. Some of these sections had been homesteaded, some were within the boundaries of Indian reservations, and others had been disposed of before passage of the Enabling Act. Other lands were selected by the state in lieu of these lands.

The Enabling Act and subsequent acts also granted acreage for other educational and state institutions, in addition to the common schools. The trust beneficiaries of these institutions include:

- The University of Montana
- Montana State University–Morrill Grant
- Montana State University–Second Grant
- Montana Tech of The University of Montana
- State Normal School (Montana State University–Billings and The University of Montana–Western)
- School for the Deaf and Blind
- State Reform School (Pine Hills)
- Veterans Home
- Public Buildings

The total acreage (see Figure 1) has fluctuated through the years due to land sales and acquisitions. Surface acreage at the end of Fiscal Year (FY) 2007 totals more than 5.1 million acres; mineral acreage exceeds 6.2 million acres. Mineral acreage now exceeds surface acreage because the mineral estate has been retained when lands were sold.

In FY 2007, 2,599.88 acres were donated by the Anton Sir Estate for school trust lands. This donation was split between the School for the Deaf and Blind, the Montana Developmental Center, and the Montana State Hospital.

Figure 1
Current Land Ownership
(as of August 27, 2007)

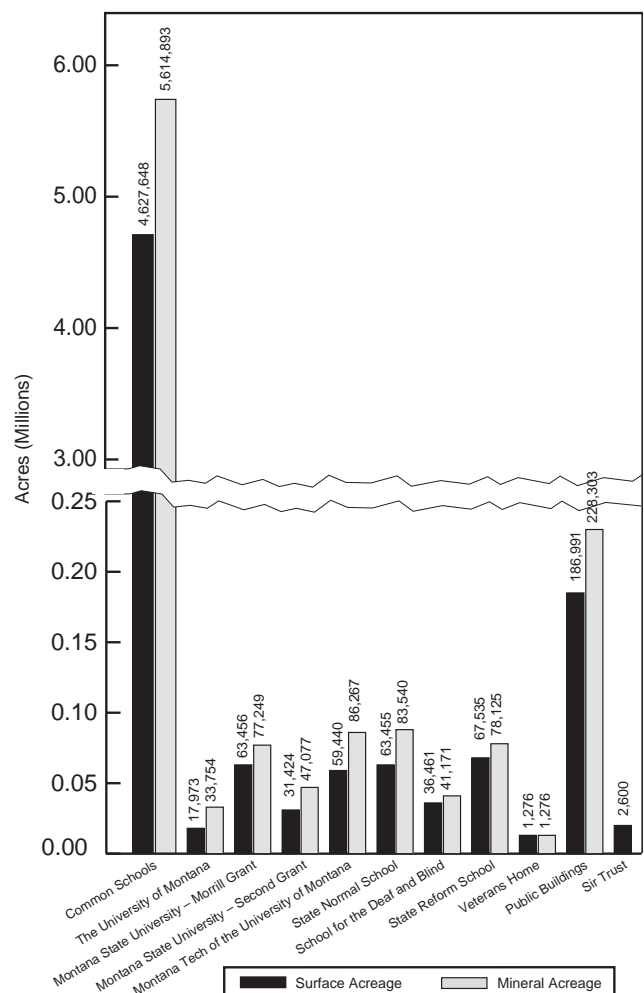
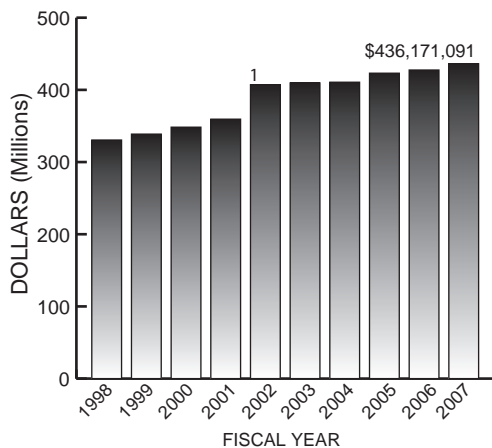


Figure 2
Permanent Fund Balance



¹ Fiscal Year 2002 total includes \$46.4 million in coal trust loan proceeds, pursuant to Senate Bill 495 (2001 Legislature).

The Permanent Fund

The Enabling Act states that proceeds from the sale and permanent disposition of any of the trust lands, or part thereof, shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the state of Montana against loss or diversion. These funds are often referred to as “nondistributable.” Figure 2 shows the Permanent Fund balance over the last 10 years. The balance of the Permanent Fund was \$436,171,091 for FY 2007.

Other Revenues

Table 3 shows the gross distributable and nondistributable interest and income for each of the trust beneficiaries. In FY 2007, the division used a portion of trust land revenues to fund administrative appropriations as shown in Table 1.

In addition to management activities on behalf of trust beneficiaries, the division generated other revenues and distributions in FY 2007. The five-year summary presented in Table 4 shows gross revenues of over \$105 million for all division activities. Table 2 provides a reconciliation of other revenues and distributions from the Table 3 and Table 4 summaries.

Table 1
Funding of Trust Land Administration

Trust Administration Account (MCA 77-1-108)	\$ 4,185,607
Timber Sale Account (MCA 77-5-204)	3,566,553
Forest Improvement Fees (MCA 77-5-204)	1,316,404
Resource Development Account (MCA 77-1-604)	789,763
Recreational Use Account (MCA 77-1-808)	101,628
Commercial Leasing Account (MCA 77-1-905)	70,758
Land Banking Account (MCA 77-2-362 (2)(b))	53,000
Morrill Trust Land Administration	58,908
Total	\$ 10,142,621

Table 2
Reconciliation of Revenues and Distributions

Gross distributable revenues	\$ 61,448,233
Gross nondistributable revenues	9,829,428
Technology Acquisition Fund	895,846
Senate Bill 495 debt service	20,978,529
Forest Improvement Fee Collections	1,316,404
Land Banking sale proceeds	10,669,510
General Fund Revenues	141,129
Non land grant income and other revenues	332,368
Total	\$ 105,611,447

Table 3
Revenues by Trust FY 2007

Distributable Revenues	Trust	Gross Distributable Revenues	Resource Development	Timber Sale Account	Trust Admin Account	Recreational Use Account	Commercial Leasing Account	Net Distributable Revenues	
Common Schools ⁽¹⁾		\$55,161,193	\$722,384	\$2,572,832	\$3,108,327	\$91,221	\$57,113	\$48,609,316	
University of Montana		226,543	3,879	295	0	366	328	221,675	
MSU - Morrill Grant ⁽³⁾		589,337	0	49,879		1,260	909	589,337	
MSU - Second Grant		1,570,833	13,753	267,187	0	620	1,564	1,287,709	
Montana Tech		1,005,615	18,311	6,456	0	1,169	6,752	972,927	
State Normal School		652,675	6,357	21,216	0	1,260	2,058	621,784	
School for the Deaf and Blind		328,713	3,793	0	0	722	767	323,431	
State Reform School (Pine Hills)		452,296	7,108	0	0	1,331	929	442,928	
Veterans Home		10,490	282	0	0	0	1	10,207	
Public Buildings		1,448,357	13,814	445,082	127,496	3,679	337	857,949	
MT Developmental Center (Sir Trust)		1,090	41	0	0	0	0	1,049	
MT State Hospital (Sir Trust)		1,091	41	0	0	0	0	1,050	
Total		\$61,448,233	\$789,763	\$3,362,947	\$3,235,823	\$101,628	\$70,758	\$53,939,362	
Nondistributable Revenues	Trust	Gross Nondistributable Revenues		Timber Sale Account	Trust Admin Account			Net Nondistributable Revenues	Permanent Fund Balance ⁽²⁾
Common Schools - permanent		\$8,970,109		\$0	\$837,802			\$8,132,307	\$404,581,257
University of Montana		2,842		0	371			\$2,471	1,503,459
MSU - Morrill Grant ⁽³⁾		52,613		0	6,860			\$52,613	3,699,000
MSU - Second Grant		343,062		0	44,382			\$298,680	8,774,218
Montana Tech		18,030		0	2,351			\$15,679	5,060,421
State Normal School		11,027		0	1,438			\$9,589	6,072,051
School for the Deaf and Blind		296,266		139,994	38,976			\$117,296	3,133,257
State Reform School (Pine Hills)		135,479		63,612	17,604			\$54,263	3,330,686
Veterans Home		0		0	0			\$0	16,742
Total		\$9,829,428		\$203,606	\$949,784			\$8,682,898	\$436,171,091
Technology Acquisition Fund		\$895,846						\$895,846	
TOTAL		\$72,173,507	\$789,763	\$3,566,553	\$4,185,607	\$101,628	\$70,758	\$63,518,106	\$436,171,091

(1) Includes common schools mineral royalties of \$24,093,462 less \$20,978,529 in debt service costs, per SB495.

(2) Trust balances reflect deposit activity by Department of Natural Resources and Conservation (DNRC) only, and do not include valuation adjustments from investment activities by the Board of Investments.

(3) MSU-Morrill Grant administrative costs were transferred to the appropriation from fund 02297 per House Bill 19 (General Fund).

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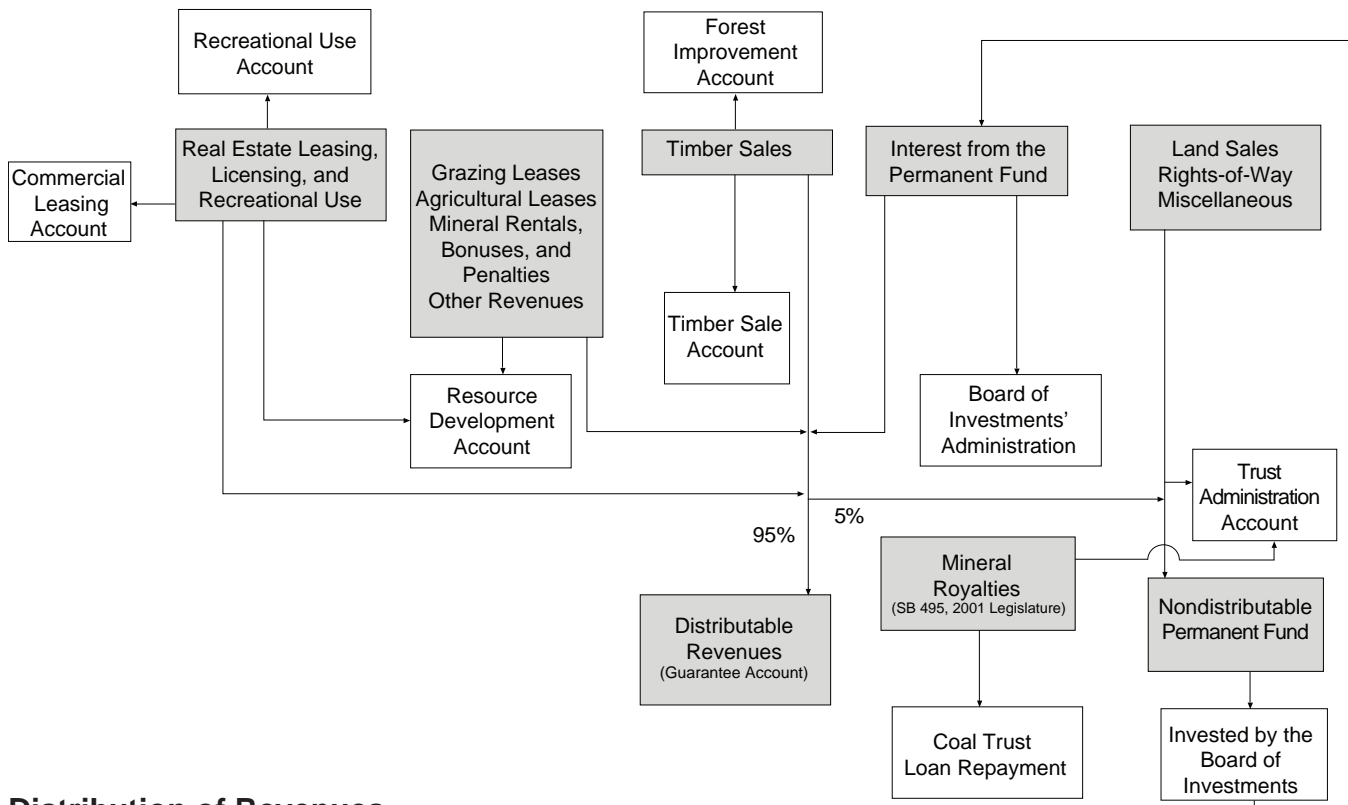
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Technology Acquisition and Depreciation Fund

In FY 2007, the TLMD generated \$895,846 from the sale of timber on common schools land for the Technology Acquisition and Depreciation Fund, pursuant to 20-9-343, MCA. This fund is administered by the Office of Public Instruction and used for purchases as defined in 20-9-533, MCA.

Table 4 Five-Year Summary of Gross Revenue Generated by Activity					
Activity	FY2003	FY2004	FY2005	FY2006	FY2007
Agriculture & Grazing Management					
Grazing Leases	\$5,818,832	\$5,467,667	\$6,566,134	\$6,984,191	\$7,872,625
Agriculture Leases	8,297,415	8,419,535	9,227,415	9,868,305	9,849,729
Totals	\$14,116,247	\$13,887,202	\$15,793,549	\$16,852,496	\$17,722,354
Recreational Use					
General Licenses	\$558,690	\$286,352	\$64,246	\$52,759	\$58,211
Conservation Licenses	0	515,628	916,806	881,276	915,888
Special Recreation Use Licenses	91,190	112,304	109,378	103,613	118,181
Totals	\$649,880	\$914,284	\$1,090,430	\$1,037,648	\$1,092,280
Forest Management					
Timber Sales	\$6,915,128	\$9,013,900	\$13,651,631	\$13,000,338	\$7,482,894
Forest Improvement Fees	1,363,664	2,005,107	2,924,052	2,875,277	1,316,404
Totals	\$8,278,792	\$11,019,007	\$16,575,683	\$15,875,615	\$8,799,298
Minerals Management					
Oil & Gas Revenues					
Rentals/Bonuses/Penalties	\$2,402,510	\$3,187,540	\$6,554,239	\$16,656,283	\$6,151,965
Royalties	5,759,027	7,703,137	12,546,647	21,377,566	20,408,064
Seismic Exploration	9,744	4,690	4,796	5,459	7,323
Aggregate Minerals					
Rentals	175	600	100	250	200
Royalties	168,078	173,178	227,171	417,794	163,047
Coal					
Rentals/bonuses	43,897	43,897	40,057	41,524	41,524
Royalties	3,877,054	4,676,964	4,239,865	4,179,503	3,729,473
Other Minerals					
Rentals/Penalties	17,179	20,009	25,584	32,295	55,661
Royalties	4,984	972	3,389	5,513	4,071
Totals	\$12,282,648	\$15,810,987	\$23,641,848	\$42,716,187	\$30,561,328
Real Estate Management					
Rights-of-way/Easements	\$189,078	\$2,117,993	\$1,068,335	\$1,075,914	\$6,574,068
Residential Leases/Licenses	949,102	929,995	1,024,125	1,129,768	1,288,897
Land Sales	19,744	2,900	25,797	0	10,912,599
Other Leases/Licenses	579,409	565,931	938,280		
Commercial				872,589	1,057,908
Conservation				94,098	92,241
Totals	\$1,737,333	\$3,616,819	\$3,056,537	\$3,172,369	\$19,925,713
Other					
Trust and Legacy Interest	\$29,210,558	\$30,140,513	\$28,375,978	\$24,850,054	\$26,475,417
Other Revenues	342,572	316,450	586,932	879,529	1,035,057
Totals	29,553,130	30,456,963	28,962,910	25,729,583	27,510,474
TOTALS	\$66,618,030	\$75,705,262	\$89,120,957	\$105,383,898	\$105,611,447

Figure 3



Distribution of Revenues

Each section of state trust land is assigned to a specific trust. As explained in the following subsection, distribution of revenues is handled in three different ways, depending on the section of trust land that generated the revenue.

In addition to state trust land, the TLMD also utilizes some General Fund dollars to administer land for the MSU-Morrill Grant Lands and other state agencies. Revenue generated from other agency land is transferred directly to the appropriate state agency.

Common Schools, Universities, and Other Trusts

The distribution of revenues generated from common schools trust land is illustrated in Figure 3. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account (see Table 1). Ninety-five percent of the remaining distributable revenue is distributed yearly to the state Guarantee Account for use by public schools of the state. The other 5 percent, together with nondistributable revenue, comprise the Permanent Fund. The interest earned on the Permanent Fund is also distributed to the Guarantee Account for use by public schools, with the exception of 5 percent, which is returned to the Permanent Fund for reinvestment.

Distribution of revenues to the university trusts and other trusts is similar to that of the common schools trust. The exception is the Montana State

Brian Schweitzer



Mike McGrath



Linda McCulloch



Brad Johnson



John Morrison



University Trust for the Morrill Grant, whose administrative costs are funded by the General Fund (House Bill 19, 2007 Legislature). For the University System Trusts, timber sale revenues are considered distributable and for the other trusts, nondistributable. The Public Buildings Trust does not have a permanent fund, so remaining receipts are distributed to the Department of Administration.

Division Overview

The mission of the TLMD is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the common schools and other endowed institutions in Montana, under direction of the Board of Land Commissioners. The Board of Land Commissioners, which is also known as the “State Land Board,” consists of Montana’s top elected officials:

Brian Schweitzer, Governor
 Mike McGrath, Attorney General
 Linda McCulloch, Superintendent of Public Instruction
 Brad Johnson, Secretary of State
 John Morrison, State Auditor

The division is divided into four primary programs: agriculture and grazing management, forest management, minerals management, and real estate management. Staff and program specialists in Helena and Missoula provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management.

The department’s obligation is to obtain the greatest benefit for the school trusts pursuant to 77-1-202, MCA. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts. Total gross revenues generated by the TLMD over the last five years are listed by activity in Table 4. This table contains not only trust revenues, but also those revenues collected for other state entities and the General Fund, revenues generated to fund appropriations, and other miscellaneous revenues collected by the division.

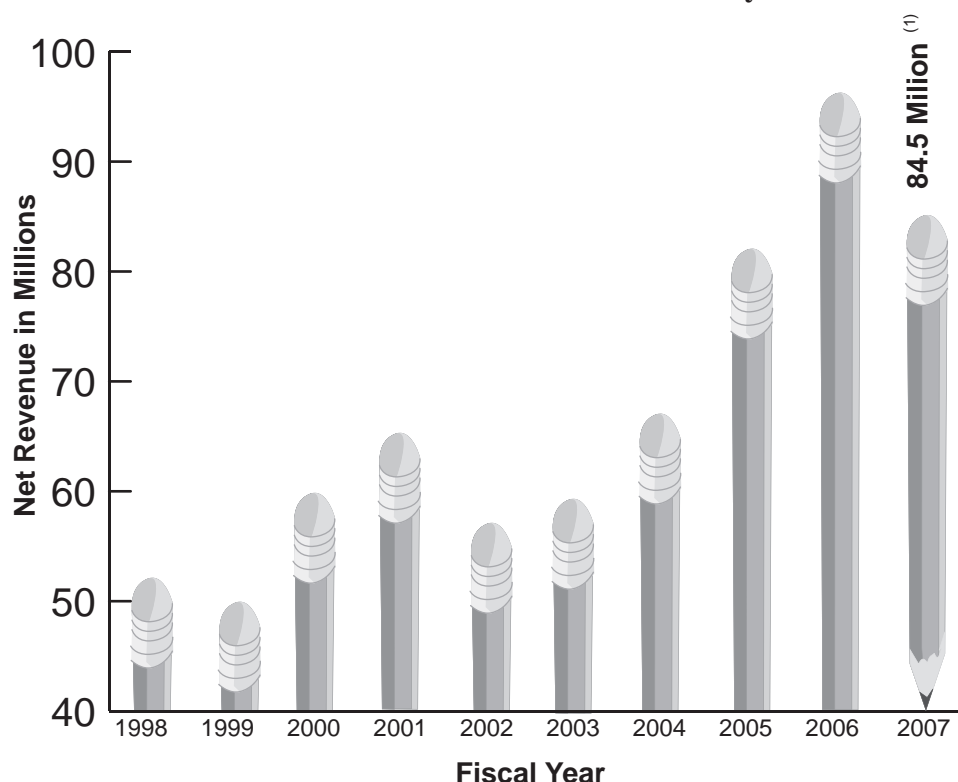
Ten-Year Net Revenue Summary

Figure 4 reflects net revenue growth from FY 1998 to FY 2007. Revenues from land management activities were combined with interest income generated from the Permanent Fund investments less annual expenditures. As a result, net revenue from all income sources, excluding land banking sales increased from approximately \$51 million in FY1998 to \$85 million in FY 2007.

Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of approximately 10,000 agreements for crop and range land uses on 4.65 million acres of school trust lands throughout the state. Administrative staff and specialists in the department’s Helena office and staff in field offices statewide accomplish these duties.

Figure 4
Ten-Year Net Revenue Summary



(1) Excludes revenue from land banking sales.

Surface Leasing

The program is responsible for administrative functions associated with maintaining surface lease agreements. Annual activities include processing approximately 1,000 lease renewals; advertising, competitively bidding, and issuing approximately 50 new leases; reviewing and processing assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collecting, verifying, and posting rentals and fees.

Land Management

The program manages the agricultural and grazing resources on lands administered by the bureau. This responsibility includes evaluation and assessment of range and crop land condition; compliance with the Montana Environmental Policy Act (MEPA); administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

Agricultural and Grazing Lands

Currently, 3,000 agreements cover agricultural use of state trust lands. Crops raised on these lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed (See figure 4a).

Figure 4a
Barley and Wheat Production

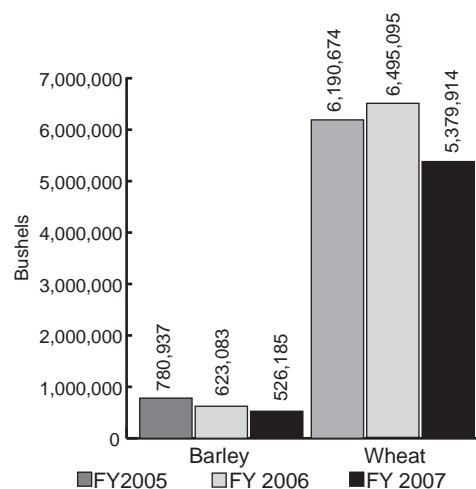
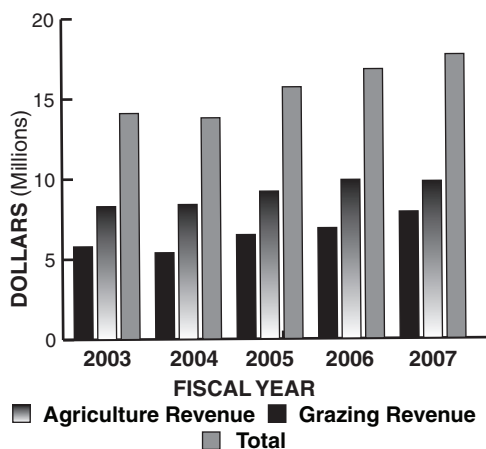


Figure 5
Agricultural and Grazing Revenue



In FY 2007, revenues totaling \$9,849,729 were received from agricultural leasing on 571,000 acres (see Figure 5). The majority of the leases are on a crop-share basis with the minimum share of 25 percent set by statute. In addition to receiving rental payments from lessees, the state participates in and receives Farm Program payments from the U. S. Department of Agriculture (USDA) Farm Service Agency. For FY 2007, this amount exceeded \$2.8 million for direct payment contracts, lands enrolled in the Conservation Reserve Program (CRP), and loan deficiency payments. Also during FY 2007, re-enrollment was initiated for nearly 80,000 acres of CRP contracts that will expire in 2008, 2009, and 2010.

Approximately 8,500 agreements include grazing use of trust lands. The 4.3 million acres of classified grazing lands and forest lands have an estimated carrying capacity of 1,110,000 animal-unit-months (AUMs). The minimum rental rate (\$7.87/AUM) for grazing leases is set by a formula, which includes the average weighted price for beef cattle sold in Montana during the previous year. In FY 2007, grazing leases generated \$7,872,625.

Recreational Use

The total number of wildlife conservation licenses sold in FY 2007 was 519,345, which generated \$915,888 in gross revenue. A total of 6,149 general recreational use licenses were sold with gross revenues of \$58,211. Special recreational use licenses generated \$118,181.

Forest Management

Sustainably managing Montana's forested trust lands to maximize long-term revenue while promoting healthy and diverse forests.

The Forest Management Bureau oversees the management on over 730,000 acres of forested state trust lands. Revenue from these lands is mainly derived from the sale of forest products. This requires the teamwork of 72 bureau and field staff.

The State Forest Land Management Plan (SFLMP), approved by the State Land Board in 1996 and associated rules (2003), guide the management of forested trust lands. This guidance is provided in the form of a general management philosophy and specific resource management standards. The strategic guidance provided by the SFLMP is summarized in this excerpt:

Our premise is that the best way to produce long-term income for the trust is to manage intensively for healthy and biologically diverse forests. Our understanding is that a diverse forest is a stable forest that will produce the most reliable and highest long-term revenue stream. Healthy and biologically diverse forests would provide for sustained income from both timber and a variety of other uses. They would also help maintain stable trust income in the face of uncertainty regarding future resource values. In the foreseeable future timber management

will continue to be our primary source of revenue and primary tool for achieving biodiversity objectives.

Forest Product Sales

The forest product sales program incorporates activities and expenditures required to grow, harvest, and sell forest products from state trust lands efficiently. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that sales comply with all applicable laws, policies, and management direction.

The current annual sustained yield from forested trust lands is 53.2 million board feet as determined by the 2004 Sustained Yield Study.

In FY 2007, 25 timber sales (50.4 million board feet) and 44 timber permits (2.9 million board feet) totaling 53.3 million board feet were sold (see Figure 6). This sold volume has an estimated stumpage value of \$12,606,424 and an additional \$827,401 in Forest Improvement fees.

A total of 32.1 million board feet of timber (sale and permit volume) and a minor amount of other miscellaneous forest products (post & poles, boughs, biomass, etc.) were harvested from state trust lands during FY 2007. The 32.1 million board feet that was harvested generated \$7,405,276 in revenue while the other miscellaneous forest products generated \$77,618 in revenue for a total of \$7,482,894 in revenue for the year (see Figure 7). An additional \$1,316,404 in Forest Improvement fees was collected during FY 2007.

Total harvest volume and total value was down significantly from previous years. This was largely due to curtailed harvesting activity in response to soft market conditions. Overall, purchasers held off harvesting higher priced sales and focused on harvesting lower priced sales. Timber sale purchasers have up to 3 years to harvest a timber contract. This curtailment in harvest activity has created a backlog of unharvested volume going into FY 2008. While markets are expected to remain soft through FY 2008, harvest volumes are expected to be higher than FY 2007 due to this backlog of unharvested volume.

The average price per thousand board feet for volume harvested in FY 2007 was \$231 compared to \$230 in FY 2006 and \$234 in FY 2005, respectively. Due to soft market conditions, the average price received for volume sold in FY 2007 fell to \$236 per thousand board feet compared to \$292 in FY 2006 and \$267 in FY 2005, respectively. The Forest Improvement rate remained unchanged from FY 2006.

Figure 6
Timber Volume Sold and Harvested

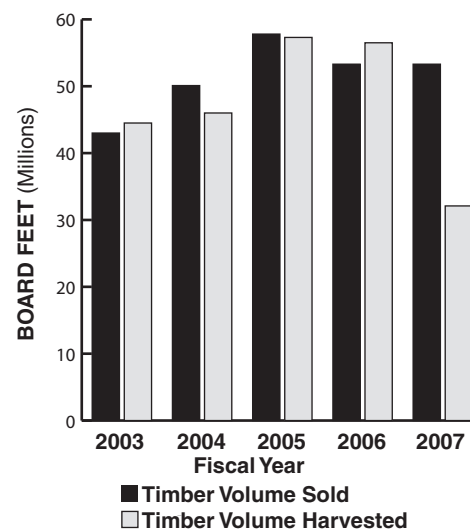


Figure 7
Timber Revenue Generated

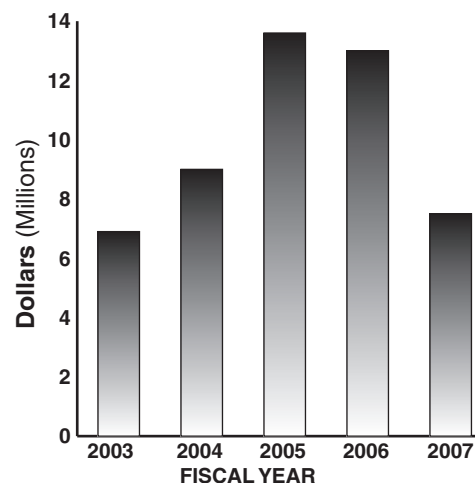


Table 5
FY 2007 Forest Improvement Fees Collected by Trust

Trust	Amount
Common Schools	\$ 995,899
Montana State University – 2nd Grant	56,500
Montana Tech	1,249
State Normal School	4,279
School for the Deaf and Blind	92,019
State Reform School	879
Public Buildings	165,579
Total	\$ 1,316,404

Table 6
FY 2007 Forest Improvement Activities

Plantation regeneration surveys	8,105 acres
Tree planting	2,761 acres
Tree browse prevention ¹	867 acres
Precommercial thinning	869 acres
Noxious weed spraying	593 acres
Herbicide application ²	600 acres
Brush piling	1,668 acres
Pile burning	3,127 acres
Broadcast burning	71 acres
Road maintenance ³	18.7 miles
Hand brush work	22 acres
Cone collection	230 bushels
Rights-of-Way granted	18.07 miles
Rights-of-Way received	23.82 miles
Trust lands accessed	9,865 acres
New public access	12,617 acres
Bio-control bug releases	90 acres
Roads Inventoried and Database updated	169 miles
1. Tree browse prevention includes replacing, maintaining, or removing seedling netting or applying a chemical repellent.	
2. Herbicide application is associated with tree planting.	
3. Road maintenance includes grading, snowplowing, removing and maintaining bridges, installing culverts, etc. Many of these activities do not lend themselves to reporting by miles.	

Forest Improvement

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Use of these fees authorized by statute include disposal of logging slash, reforestation, acquiring access and maintaining roads necessary for timber harvest, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest. In FY 2007, the department collected \$1,316,404 in Forest Improvement fees. Table 5 shows the amount of Forest Improvement fees collected by trust during FY 2007.

Table 6 lists the activities conducted to improve the health and productivity of forested state trust lands. Under the reciprocal access program, the state received 23.82 miles of right-of-way and granted 18.07 miles across state trust lands. This cooperative exchange of access with other parties allowed the state to gain new access to 9,895 acres of state trust land along with new motorized public access to 12,617 acres.

Habitat Conservation Plan

The Forest Management Bureau is developing a programmatic Habitat Conservation Plan (HCP) in cooperation with the U.S. Fish and Wildlife Service. This series of conservation strategies is designed to minimize the impacts of DNRC management activities on threatened or endangered fish and wildlife species, while providing DNRC with long-term management assurances and overall flexibility. Conservation strategies for grizzly bear, Canada lynx, and three fish species (Bull Trout, Westslope Cutthroat Trout, Red Band Trout) have been completed and through technical and public review. The draft HCP/Environmental Impact Statement (EIS) is being completed and is expected to be available for public review in the spring of 2008. Completion of the HCP project is anticipated in 2009.

Forest Inventory

The Forest Inventory Program is responsible for collection and analysis of forest resource inventory data on 730,000 acres of state trust lands. Stand-level resource data and the development and maintenance of a geographic information system (GIS) are used to support planning for forest management activities, environmental analyses, and other activities.

In FY 2007, the inventory program collected 42,083 acres of stand-level inventory data, collected tree data on 550 plots in 55 stands, and updated or added 4,800 miles of roads in the GIS. Each year the Technical Services Section processes and updates changes to the stand-level inventory data layer, road layer, and other GIS layers.

Resource Management

The Resource Management Section (RMS) provides technical assistance to field staff in the disciplines of hydrology, soils, geology, fisheries, wildlife, sensitive plants, road engineering, and riparian grazing. Technical assistance provided by the section staff includes field reviews, project analysis, Montana Environmental Policy Act (MEPA) document preparation, recommendation and design of mitigation measures and other contract provisions, and timber sale document review. The RMS also reviews, evaluates, and monitors activities on forested trust lands to ensure compliance with applicable laws, rules, and policies and maintains appropriate levels of resource protection.

In FY 2007, the RMS provided technical assistance on 19 timber sales and conducted 120 different wildlife, fisheries, soil, and watershed monitoring projects on forested state trust lands. Four stream restoration projects and three fire rehabilitation projects were also completed or initiated during the year.

Minerals Management

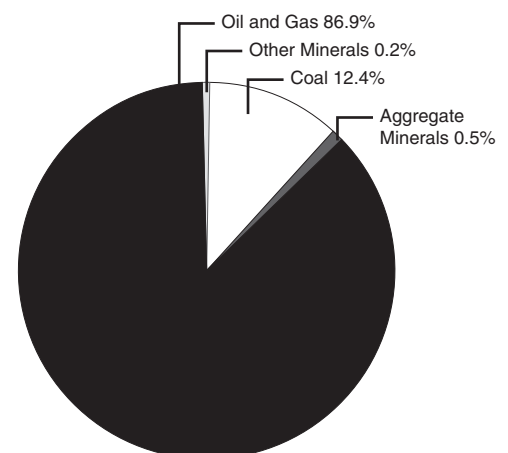
The Minerals Management Bureau is responsible for leasing, permitting, and managing approximately 4,479 oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements on 1.8 million acres of the available 6.2 million acres of school trust land and approximately 1,800 acres of other state-owned land throughout Montana. General background information on bureau activities is available on the department's website: www.dnrc.mt.gov/trust/mmb/.

A calendar of key lease activities and dates is posted, and lease sale lists and sale results are available for viewing and downloading.

Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals

Figure 8
Total Mineral Revenue by Mineral Type



and production royalties. Revenues received in FY 2007 are listed in Table 4; the relative percentage of revenue derived from each mineral type is illustrated in Figure 8.

Figure 9
Oil and Gas Revenue
(excluding Seismic Exploration)

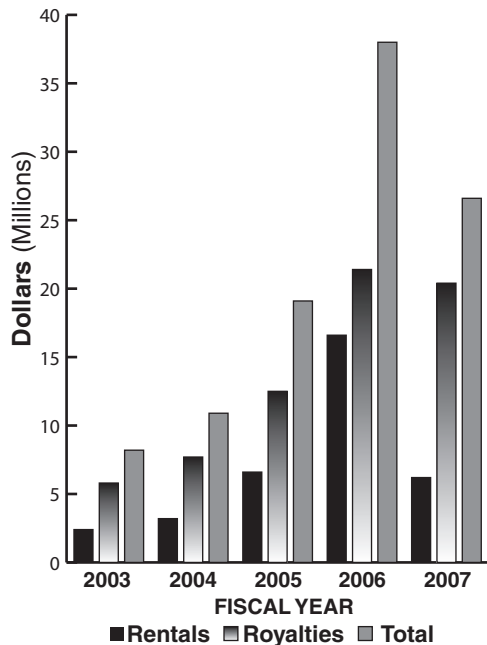
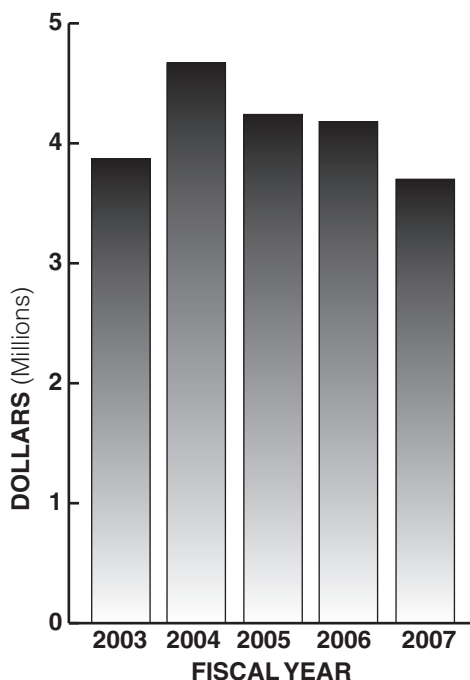


Figure 10
Coal Royalties



Oil and Gas Leasing

The program is responsible for the leasing and monitoring of 4,345 oil and gas leases, 583 of which are currently productive. The number of oil and gas leases managed is up 8.0 percent, while the number of currently producing leases increased by 0.9 percent, compared to FY 2006. Activities related to existing leases include collecting, verifying, and posting rental, royalty, delay drilling, and shut-in payments; reviewing and approving assignments and tracking working interest ownership; reviewing and preparing for approval communitization agreements and unit operating agreements; and coordinating with field offices the review and approval of all proposed physical operations on state leases. In addition, four oral auctions of new oil and gas leases are prepared and conducted each year.

In FY 2007, 2,012,340 barrels of oil were produced; 7,708,192 MCF (thousand cubic feet) of gas and 1,274,726 gallons of condensate were also produced. Oil production decreased 0.59 percent from FY 2006 and the average price also decreased by 2.4 percent, to \$55.85 per barrel in FY 2007. Gas production in FY 2007 decreased 2.2 percent, while the price also decreased 22.6 percent from FY 2006, for an average price of \$5.13 per MCF. An \$11 million reduction in rental bonus bid revenues accounted for nearly all of the 4.5 percent overall decrease in oil and gas royalty revenues, compared to FY 2006. Oil and gas revenues received over the last five fiscal years are shown in Figure 9.

Other Mineral Leasing

The program also administers a wide variety of leases—including metalliferous and nonmetalliferous leases, coal leases, gravel permits, and land use licenses for nonmechanized prospecting—for all other mineral activity on state trust land. In FY 2007, 2,883,432 tons of coal was mined, which is a 29.3 percent decrease in production over FY 2006. The average price per ton increased 10.6 percent from FY 2006 for an average price of \$9.55 per ton. Royalties decreased 10.8 percent compared to FY 2006. The volume mined can vary significantly from year to year, as mining activity moves onto or off state trust land within the normal sequence of mining operations. A five-year summary of coal royalties is shown in Figure 10. Royalties and rentals are also collected for minerals such as bentonite, clay, gold and associated minerals, peat, and shale.

SB495

The DNRC made principal and interest payments totaling \$19.473 million and \$1.505 million, respectively in FY 2007. The original loan amount was \$46.366 million. The FY 2007 payments reduced the remaining loan balance to \$11.574 million, which the department anticipates paying in FY 2008. Beginning in FY 2008, common schools mineral royalties available after meeting debt service costs will be deposited into the school facility improvement account. This account was created by SB2 in the 2007 Special Session.

Royalty Auditing and Accounting

The Royalty Audit Program provides additional revenue to the school trusts through programmatic audits. The program identifies royalty under- and over-reporting, rectifies discrepancies, and raises the level of voluntary compliance. Most audits have a single payor and involve multiple leases.

Audit activity increased in FY 2007 with eight audits completed. Six audits had preliminary assessments due ranging from \$2,061 to \$51,282 and two audits were closed having no audit findings. An additional nine audits are in progress, three with preliminary assessments due ranging from \$3,862 to \$621,422.

Riverbed Leasing

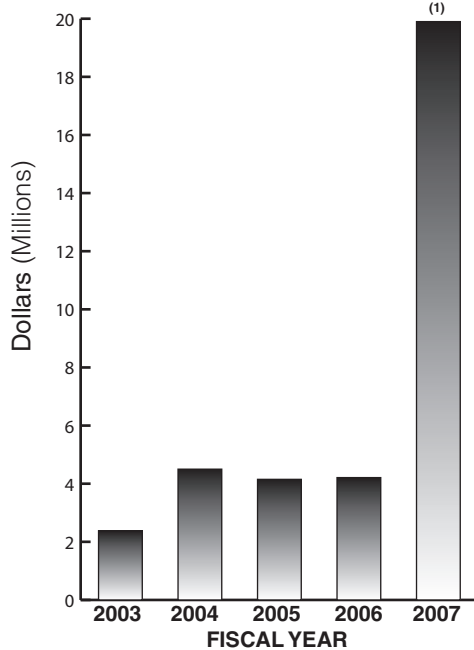
The Minerals Management Bureau continues its efforts to clarify title to the beds and islands of navigable rivers. Pursuant to statute, the state owns those lands below the low-water mark; islands and their accretions formed in the riverbeds after statehood; and abandoned channels formed by avulsion. Because two navigable rivers in Montana flow through areas with major oil and gas resources, the department has conducted numerous riverbed studies to determine and document state ownership of land. This process allows the state to take a progressive position in issues involving substantial royalties.

In FY 2007, the program managed 27,204 acres of leased riverbed and island tracts. These tracts provided the state with \$575,300 in oil and gas revenues while generating an additional \$559 from other mineral leasing activity. This same ownership review process is also becoming increasingly important in areas where surface development and/or use encounters beds, islands, and abandoned channels of navigable rivers. The department continues to work with state, federal, and private entities whenever ownership issues arise.

Otter Creek Tracts

On October 13, 2006, the Federal Surface Transportation Board (STB) issued its Final Supplemental Environmental Impact Statement on the proposed Tongue River Railroad. At fiscal year end, the STB had not issued a decision on the Tongue River Railroad application. Great Northern Properties continued to evaluate its potential interest in leasing or participating in development. The DNRC remains interested in leasing the school trust coal ownership at Otter Creek for exploration and development.

Figure 11
Real Estate Management
Revenues



(1) Includes \$10.9 million in land banking sales and a \$5.7 million one-time easement to Montana Department of Transportation

Real Estate Management

The Real Estate Management Bureau (REMB) administers activities on lands classified as “other” and all secondary activities on lands classified as grazing, agriculture, or timber. The sources of FY 2007 real estate management revenues are summarized in Table 4. Income over the last five years is illustrated in Figure 11.

For more information on the REMB, please visit our website at www.dnrc.mt.gov/trust/remb/.

Leasing/Licensing

Lease and License revenue for FY 2007 was \$2,120,877 and \$318,169 respectively as shown in Table 7. Residential leasing makes up the largest portion of lease income with approximately 800 residential leases generating nearly \$1.3 million in FY 2007. Lease income increased \$330,302 compared to FY 2006, which is attributable to gains of 10% to 25% in several lease type categories, most notably commercial leasing, which increased \$130,000 from FY 2006.

Land Sales

In FY 2007, the Land Banking program sold 19,189.47 acres. Table 8 shows the acres sold in FY 2007 by county, grant, classification, income, and rate of return.

Table 9 shows the trust land acreage in each of the 56 counties by grant.

Land Acquisition

Twenty parcels were nominated for acquisition in the Land Banking program. Six parcels were purchased for \$9,096,766 with a total acreage of 24,295 as shown in Table 10. The lands purchased are projected to generate 7.5 times more revenue annually and are legally accessible providing public recreational opportunities. Additionally, 2,599.88 acres were donated by the Anton Sir Estate for School Trust Lands.



Tongue River Ranch

Senate Bill 131 was passed by the 2007 Legislature and extended the sunset date for the land banking program from October 1, 2008 to 2011.

Table 7
FY 2007 Lease and License Revenues

Agreement Type	2007 Lease Revenue	2007 Leased Acres	2007 Value per Acre ⁽¹⁾	2007 License Revenue
Community Facility	\$12,451	402.07	\$30.97	\$2,789
Commercial	372,726	136.26	2,735.40	19,564
Communication Sites	32,273	30.51	1,057.78	35,168
Conservation	92,241	14,217.94	6.49	0
Developed Recreation	124,604	908.80	137.11	15,995
Industrial	70,627	151.27	466.90	1,550
Institutional	41,634	21.71	1,917.73	150
Residential	1,288,897	1,869.83	689.31	0
Residential Accessory	4,915	104.10	47.21	19,165
Rural Commercial	53,121	721.98	73.58	11,515
Rural Industrial	15,487	1,566.29	9.89	159,591
Other Lease	11,901	668.15	17.81	\$52,682
Total	\$2,120,877	20,798.91	\$101.97	\$318,169

(1) Lease Income/leased acres = value per acre.

Table 8
Land Sold by County and Grant FY 2007

County	Acres	Value	Land Class	Annual Income	Grant	Return
Chouteau	320.00	\$60,800	Grazing	\$364	State Reform School	0.60%
Chouteau	640.00	121,600	Grazing	780	Common Schools	0.64%
Custer	9,585.19	1,461,800	Grazing	11,369	Common Schools	0.78%
Flathead	85.20	6,400,000	Other	1,119	Common Schools	0.02%
Garfield	6,400.00	947,012	Grazing	8,614	Common Schools	0.97%
Madison	479.08	886,298	Grazing	601	Common Schools	0.07%
Powell	80.00	424,000	Forest	110	Common Schools	0.03%
Treasure	1,600.00	368,000	Grazing	2,039	Common Schools	0.57%
	19,189.47	10,669,510		24,996		0.80%

Exchanges

Five land exchanges (CB Ranch, Tarkio (Five Valleys), Rocky Boy, Goguen, and Lolo) are in various stages of completion.

CB Ranch – acquired 1,280 acres in exchange for 640 acres.

Tarkio (Five Valleys) – potential acquisition of 581.80 acres in exchange for 504.46 acres.

Rocky Boy – potential to acquire 320 acres in exchange for 1,440 acres.

Goguen – potential to acquire 600 acres in exchange for 435 acres.

Lolo – potential to acquire 11,336 acres of National Forest Land for the same amount of trust land acreage.

Table 9
Trust Land Surface Acreage By County and Grant at FY 2007

Counties	Common Schools	MSU Morrill	MSU Second	Deaf & Blind	Capitol Building	Montana Tech	State Normal School	Pine Hills School	Univ. of Montana	Veterans Home	Sir Trust	TOTALS
Beaverhead	259,528.42	11,128.56		6,300.23	24,556.47	5,439.03	15,266.86	12,258.68	-	-	-	334,478.25
Big Horn	60,398.31	-	-	-	-	-	-	-	-	-	-	60,398.31
Blaine	181,692.89	786.06	-	-	-	1,000.49	1,031.47	40.00	-	-	-	184,550.91
Broadwater	17,540.95	-	-	-	6,263.94	-	-	-	-	-	-	23,804.89
Carbon	34,393.62	3,577.93	-	-	-	-	-	3,248.81	-	-	-	41,220.36
Carter	143,401.62	-	-	-	440.00	228.37	27.75	141.06	-	-	-	144,238.80
Cascade	68,429.57	760.00	1000.40	160.00	400.00	5,536.41	402.36	1,954.47	241.54	-	-	78,884.76
Chouteau	217,532.48	13,299.94	-	-	2,349.16	14,315.08	10,012.20	8,747.94	-	-	-	266,256.80
Custer	155,215.41	-	-	-	-	-	-	60.00	480.00	-	-	155,755.41
Daniels	216,423.49	-	-	-	-	-	3,897.40	-	-	-	-	220,320.89
Dawson	87,424.13	-	-	-	480.00	-	-	-	-	-	-	87,904.13
Deer Lodge	7,553.06	-	-	-	-	-	-	-	-	-	-	7,553.06
Fallon	70,752.64	-	-	-	-	-	-	-	-	-	-	70,752.64
Fergus	156,632.37	-	-	-	-	-	-	-	2,240.00	1,275.61	-	160,147.98
Flathead	72,435.09	3,385.25	11,941.39	5,336.88	17,061.16	9,224.04	9,205.01	1,308.65	-	-	-	129,897.47
Gallatin	28,563.36	-	455.47	2,577.44	7,828.87	5,879.98	2,097.22	642.32	1,918.91	-	-	49,963.57
Garfield	160,711.61	-	-	-	-	-	-	-	-	-	-	160,711.61
Glacier	8,338.91	-	-	-	-	-	-	-	-	-	-	8,338.91
Golden Valley	44,607.52	-	-	-	-	-	-	-	3,994.63	-	-	48,602.15
Granite	20,422.77	-	-	-	-	-	-	-	-	-	-	20,422.77
Hill	143,227.58	-	-	-	10,346.23	-	353.50	40.00	-	-	-	153,967.31
Jefferson	26,046.15	-	3,360.00	1,678.20	-	-	-	745.50	320.00	-	-	32,149.85
Judith Basin	94,057.18	480.00	-	-	-	3,268.93	160.00	-	640.00	-	-	98,606.11
Lake	50,642.64	40.00	320.00	1,131.70	160.00	1,535.56	960.07	-	247.54	-	-	55,037.51
Lewis & Clark	86,196.13	7928.42	1,840.00	2,360.00	12,020.43	4,592.78	2,213.14	17,529.29	-	-	-	134,680.19
Liberty	86,421.78	-	-	-	156.14	-	-	-	-	-	-	86,577.92
Lincoln	54,320.19	-	-	-	10,562.07	480.00	-	-	-	-	-	65,362.26
McCone	94,559.19	-	-	-	-	-	-	-	-	-	-	94,559.19
Madison	99,753.90	635.95	3,881.60	2,920.28	9,659.19	1,993.92	7,512.63	6,438.90	320.00	-	-	133,116.37
Meagher	59,981.77	14,728.73	-	7,662.07	-	-	-	7,547.42	-	-	-	89,919.99
Mineral	7,458.25	-	2,478.33	-	8,038.28	-	3,887.92	-	-	-	-	21,862.78
Missoula	45,195.57	2,137.15	6,146.83	315.49	10,278.15	-	-	3,909.17	1,280.00	-	-	69,262.36
Musselshell	76,283.65	-	-	-	-	-	-	-	-	-	-	76,283.65
Park	32,520.12	-	-	-	-	-	-	-	880.00	-	-	33,400.12
Petroleum	62,190.29	-	-	-	-	-	-	-	1280.00	-	-	63,470.29
Phillips	189,712.36	360.00	-	-	-	-	-	-	-	-	-	190,072.36
Pondera	57,026.51	200.00	-	-	120.00	-	-	-	-	-	-	57,346.51
Powder River	141,638.67	480.00	-	-	-	-	695.10	-	-	-	-	142,813.77
Powell	57,655.74	157.69	-	-	2,997.58	-	-	356.00	156.67	-	-	61,323.68
Prairie	76,698.56	-	-	-	-	-	-	-	-	-	2,599.88	79,298.44
Ravalli	19,369.04	1,200.00	-	-	5,536.52	3,278.02	40.00	-	-	-	-	29,423.58
Richland	81,772.72	-	-	-	604.39	-	-	-	-	-	-	82,377.11
Roosevelt	18,878.25	-	-	-	1,431.02	-	-	-	-	-	-	20,309.27
Rosebud	175,888.17	-	-	-	-	-	-	-	2,213.74	-	-	178,101.91
Sanders	47,867.26	-	-	2,158.58	12,913.41	-	40.00	-	-	-	-	62,979.25
Sheridan	45,146.80	-	-	-	-	-	-	-	-	-	-	45,146.80
Silver Bow	13,234.07	-	-	-	-	-	-	-	-	-	-	13,234.07
Stillwater	46,072.97	-	-	-	-	-	-	-	-	-	-	46,072.97
Sweet Grass	47,884.26	-	-	-	-	-	-	-	-	-	-	47,884.26
Teton	73,445.18	2,170.24	-	-	21,956.37	2,627.46	3,498.40	240.00	-	-	-	103,937.65
Toole	79,146.59	-	-	-	20,831.90	40.00	-	-	-	-	-	100,018.49
Treasure	35,313.78	-	-	-	-	-	-	-	480.00	-	-	35,793.78
Valley	217,323.80	-	-	-	-	-	1,033.92	-	-	-	-	218,357.72
Wheatland	64,847.24	-	-	3,859.96	-	-	1,120.00	2,326.48	1,280.00	-	-	73,433.68
Wibaux	33,801.43	-	-	-	-	-	-	-	-	-	-	33,801.43
Yellowstone	74,071.94	-	-	-	-	-	-	-	-	-	-	74,071.94
Totals	4,627,647.94	63,455.92	31,424.02	36,460.83	186,991.28	59,440.07	63,454.95	67,534.69	17,973.03	1,275.61	2,599.88	5,158,258.22
Original Grant	5,188,000.00	90,000.00	50,000.00	50,000.00	182,000.00	100,000.00	100,000.00	50,000.00	46,080.00	1,275.61	0.00	5,857,355.61

Table 10
Land Acquired by County and Grant in FY 2007

Common Schools					Estimated Annual	Rate of
Counties	Acres	Value	Land Class	Acres by class	Net Income	Return
Cascade	897.82	\$716,395	Grazing	897.82	\$16,654	2.32%
Custer ⁽¹⁾	18,544.18	4,800,000	Agriculture /	349.00 /	64,700	1.35%
			Grazing	18,195.18		
Fergus	1,842.55	1,290,000	Agriculture /	1,033.90 /	25,473	1.97%
			Grazing	808.65		
Lewis & Clark	1,041.83	1,131,636	Forest	1,041.83	33,650	2.01% ⁽³⁾
Powell	1,438.93	540,735	Forest	1,438.93	-	-
Valley	530	618,000	Agriculture /	324.4 /	12,898	2.09%
			Grazing	205.60		
Total	24,295.31	\$9,096,766			\$153,375	1.69%
Sir Trust						
Prairie ⁽²⁾	2599.88	-	Agriculture /	477.20 /		
			Grazing	2122.68		
Grand Total	26,895.19	\$9,096,766			153,375	1.69%

(1) Purchase Price was \$5,000,000. The State of Montana paid \$4,800,000 through the land banking program and Pheasants Forever contributed \$200,000.

(2) The Sir estate donated 2,599.88 acres to be split equally between the School for the Deaf and Blind, Montana Developmental Center and the Montana State Hospital.

(3) The rate of return for this transaction was combined with Powell County.

The Tarkio Land Exchange received final approval from the Board of Land Commissioners in May 2007. DNRC has received applications for two new land exchanges, and is in discussion with the Confederated Salish-Kootenai Tribe for a land exchange.

Non-Trust Land Activity

The department facilitated the following transactions involving other state agency lands:

Department of Military Affairs

- Transfer of the Chinook Armory to the City of Chinook
- Transfer of Glendive Armory to Dawson County
- Acquisition of two parcels at Ft. Harrison
- Preparation for the Missoula Armory auction

Department of Commerce's Montana Heritage Preservation & Development Commission

- Initiation of a land exchange in Virginia City.

Department of Corrections

- The Pine Hills Old Campus will be transferred to Custer County in FY 2008.

Spring Prairie Center

Activity involving the Spring Prairie Center in Kalispell included:

- Completion of the new high school to be open in August 2007.
- A connector road that traverses northwest to southeast through the north half of the section, West Reserve Loop, is nearly completed and is also expected to be functional in time for the first day of school.

- An easement payment from the Montana Department of Transportation for the Highway 93 bypass generated more than \$5.7 million into the common schools permanent fund for 59.3 acres.
- The Board of Land Commissioners has approved an easement for the West Reserve Loop with the Montana Department of Transportation of 20.58 acres for more than \$1.4 million to be received in FY 2008.
- The new Holiday Inn Express (3.45 acres) is open for business, and a U.S. Forest Service office building (4 acres) is nearly complete with expected occupancy in FY 2008.
- Development and leasing of approximately 20 acres in the northeast corner of Spring Prairie, generally referred to as Phase III, is under negotiation.

Whitefish Area Trust Lands Neighborhood Plan

Three proposals have been presented to the Trust Land Management Division:

- A proposal to construct and maintain a trail system.
- A conservation-oriented land exchange.
- Accommodation of sanitation drainfields, outstanding private access issues, and sanitation system needs for trust land development.

Wind Energy

Montana's first large-scale wind farm, the 135 MW, 90-turbine Judith Gap Wind Farm, generated its first full year's revenue of \$49,439. Thirteen of the 90 towers at the Judith Gap wind farm are on Common Schools trust land (640 acres).

Two additional wind farms are in the process of being developed on trust land. Horizon Wind Energy based in Portland, Oregon, has made significant progress laying the groundwork for the construction of an approximately 200 MW wind farm just north of Martinsdale, Montana. Wind Kraft Nord, USA, is investigating the development of a possible 20 – 60 MW wind farm near Geyser, Montana. Another RFP for wind development in Gallatin County, Montana, is currently open and may be awarded in FY 2008.

Rights-of-Way/Easements

Five hundred twenty-five rights-of-way applications were presented to the Land Board for approval in FY 2007. Of these requests, 434 were historic easement applications submitted under 77-1-130, MCA. Revenue rose significantly during the fiscal year due to the issuance of an easement to the Department of Transportation for the proposed Kalispell Bypass for \$5.7 million. Other large easements issued included an easement to Mineral County – St. Regis Sewer District for \$315,000 and a public recreation area/shooting range to Department of Fish, Wildlife and Parks near Glendive for \$130,000. Rights-of-way revenue is shown in Figure 12.

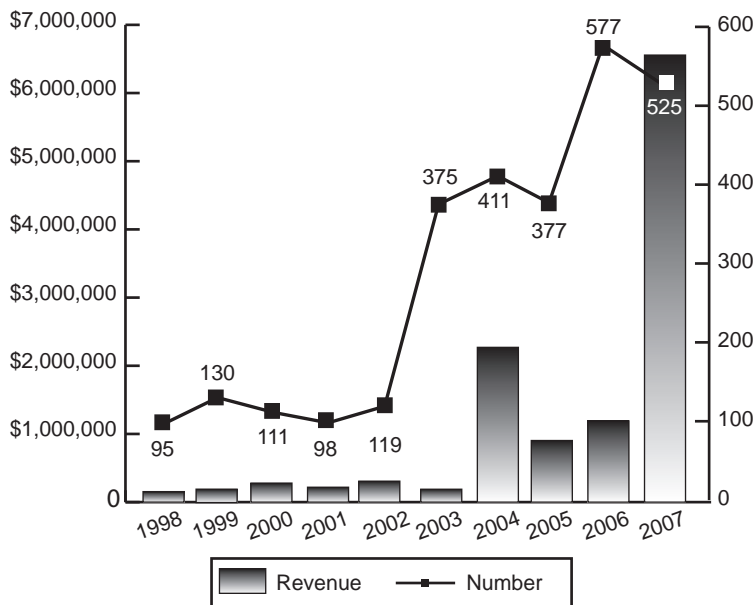
Marketing

Along with traditional real estate marketing methods, such as signage on properties and a web presence of premier properties on the DNRC web site, the REMB along with other Western states is seeking more exposure for Montana properties through the International Council of Shopping Centers (ICSC).

Real Estate Management Programmatic Plan

As in FY 2006, the REMB and personnel from the DNRC's regional areas conducted several real estate community meetings in the spring of 2007 to gather input on the development of school trust lands in areas, such as Billings, Bozeman and Missoula. Revised internal reporting documents allowed streamlined processes for the annual Real Estate Identification Team meeting held in June 2007. Real estate project development updates were shared along with decisions on project selection and prioritization.

Figure 12
Right-of-Way Revenue FY 98 – FY 07



Restoration Activities on Trust Land in FY 2007

Forest Management Activities

- Coordinated fire rehabilitation activities on the Woodchuck Fire for Missoula Unit.
- Completed design, grant funding, and contracting for culvert replacement and riparian fencing for the South Sula Stream and Fisheries Restoration Project. Completed construction on one of the riparian fencing projects.
- Completed maintenance of the Blanchard Creek Stream Restoration Project.
- Completed preliminary designs for the Deer Creek Stream Restoration on Southern Land Office.
- Completed preliminary fish passage stream crossing designs for 10 stream crossing structures.
- Completed monitoring and adjustment of stream flow on the Beaver Creek head gate and irrigation ditch restoration project.
- Planted 550,000 seedlings on approximately 2,761 acres.

Minerals Management Activities

- DEQ solicited public comment on the Reliance Refinery Feasibility Study (FS) Report and the final draft was completed. The proposed plan and preferred cleanup alternative are being drafted based on findings in the FS Report.

Agriculture and Grazing Management Activities

Provisions of the Area Weed Management Plans were implemented in FY 2007. The plans included:

- 5,092 acres of herbicide application.
- 3,130 acres of bio-control releases.
- 130 acres of revegetation.
- 800 acres of targeted grazing.
- 4,000 acres of weed mapping.

Montana Universities – Trust Lands

By the Enabling Act of 1889, the United States Congress granted acreage to the state of Montana for the support of Common Schools (K-12 public schools) and other educational and state institutions, including the Montana University System.

The State of Montana has five university trust beneficiaries as follows:

- University of Montana 
- Montana State University–Morrill Grant 
- Montana State University–Second Grant 
- Montana Tech of the University of Montana 
- State Normal School (Montana State University–Billings)  and the University of Montana–Western at Dillon 

Authority for establishing these trusts is included in sections 14, 16, and 17 of the Enabling Act of 1889 and in the Morrill Act of 1862 and 1890, for the Montana State University Morrill Lands. The following excerpt is taken from the Second Annual Report of the State Board of Land Commissioners for the year 1892:

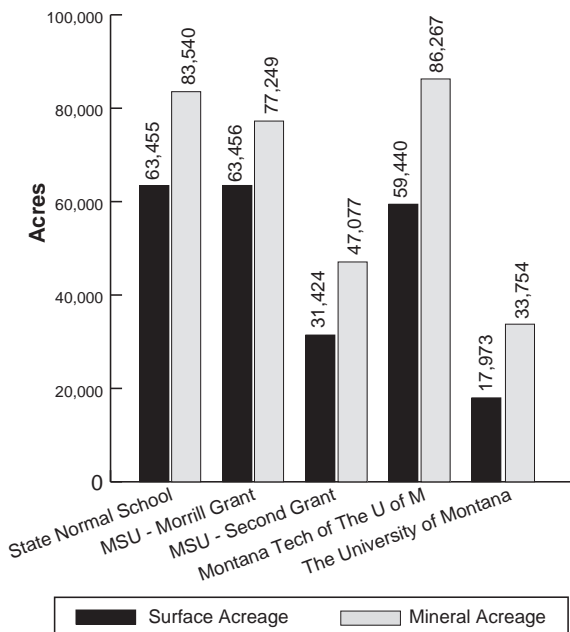
“The grants of land made by the Congress of the United States to the State of Montana as provided in the Act of February 22, 1889, entitled, “An Act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments and to be admitted into the Union on an equal footing with the original states, and to make donations of public lands to such states are shown in Table 11.

Table 11 University System Original Grant Acreage	
Institution	Original Grant Acres*
Montana Tech (School of Mines)	100,000
State Normal School	100,000
Agricultural College	
MSU – Morrill Grant	90,000
MSU – Second Grant	50,000
Univ of Montana	46,080
*Figure 13 displays current acreage by institution	

Section 14: “That the lands granted to the territories of Dakota and Montana by the act of February eighteenth, eighteen hundred and eighty-one, entitled ‘An act to grant lands to Dakota, Montana, Arizona, Idaho and Wyoming for university purposes,’ are hereby vested in the states of South Dakota, North Dakota, and Montana, respectively, if such states are admitted into the union, as provided in this act, to the extent of the full quantity of seventy-two sections to each of said states...”

Section 16: “That ninety thousand acres of land, to be selected and located as provided in section ten of this act, are hereby granted to each of said states”... “for the use and support of agricultural colleges in said states, as provided in the acts of congress making donations of lands for such purpose.”

Figure 13
University System Acres by Trust FY 2007



Section 17: “To the state of Montana: For the establishment and maintenance of a school of mines, one hundred thousand acres; for state normal schools, one hundred thousand acres; for agricultural colleges, in addition to the grant herein before made for that purpose, fifty thousand acres.”

These lands are managed under direction from the Board of Land Commissioners by the Trust Land Management Division (TLMD) of the Montana Department of Natural Resources and Conservation (DNRC).

University System Trust Land Acreage

The total acreage for all trusts has fluctuated through the years due to land sales and acquisitions. The acreage for each university is shown in Table 9 and Figure 13. Surface acreage at the end of FY 2007 for the five trusts totaled 235,748 (or 4.6% of the total acreage) and 327,887 mineral acres (5.2%). Mineral acreage exceeds surface acreage because the mineral estate has been retained when lands were sold.

Table 12
University Permanent Fund Balances FY 2004 - FY 2007

Trust	FY 2004	FY 2005	FY 2006	FY 2007
The University of Montana	\$1,497,887	\$1,499,962	\$1,500,943	\$1,503,459
MSU - Morrill Grant	3,541,515	3,586,237	3,646,386	3,699,000
MSU - Second Grant	8,474,082	8,472,888	8,475,519	8,774,218
Montana Tech	4,545,212	4,545,537	5,044,678	5,060,421
State Normal School	5,982,974	6,003,215	6,061,334	6,072,051
Total	\$24,041,670	\$24,107,839	\$24,728,860	\$25,109,149

The Permanent Fund

Table 12 shows the University System Permanent Fund Balances from FY 2004 to FY 2007 by trust. The balance at the end of FY 2007 was \$25,109,149.

Revenues

Total gross revenues generated by the TLMD over the last two years are listed by activity in Table 13. This table contains not only trust revenues, but Forest Improvement Fees and revenues generated to fund appropriations. During FY 2007, more than \$4.5 million was generated in gross revenues from land management activities and investment interest.

Figure 14 illustrates the flow of funds from land management activities and interest into appropriation accounts and the permanent fund.

Distribution of Revenues

Table 14 shows the distributable and nondistributable interest and income for each of the University System trust beneficiaries. In FY 2007, the division used a portion of trust land revenues to fund administrative appropriations. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account. The exception is the Montana State University Trust for the Morrill Grant, which does not fund administrative cost accounts. These costs are paid by the general fund. Net distributable revenues for FY 2007 totaled \$3.7 million and net nondistributable revenues of \$379 thousand were deposited in the various permanent trusts.

Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of agreements for crop and range land uses on University System trust lands across the state. Total gross revenues by trust for FY 2007 are shown in Table 15.

Agricultural and Grazing Lands

Crops raised on trust lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed. Agricultural gross revenues of \$301,953 were generated in FY 2007 on University System lands (see Table 16).

Agricultural trust lands are typically leased on a crop-share basis, with the minimum share of 25% set by statute. Table 16 shows production totals for wheat, barley and hay produced on university trust lands in FY 2007. Acreages enrolled in the Conservation Reserve Program (CRP) are also listed. This program pays landowners to remove erodible cropland from production and plant the land in permanent cover. Contracts are normally for ten-year periods. Table 16 also shows the carrying capacity of university grazing lands in terms of animal unit months (AUM). An AUM is the amount of forage necessary to support one animal unit (typically a cow/calf pair) for one month. The

Table 13 Gross Revenue Generated by Activity for the University System FY 2007		
Activity	FY2006	FY2007
Agriculture & Grazing Management		
Grazing Leases	\$306,865	\$345,962
Agriculture Leases	292,439	301,953
Totals	\$599,304	\$647,915
Recreational Use		
General Licenses	\$5,374	\$6,995
Conservation Licenses	40,911	39,004
Special Recreation Use Licenses	12,240	988
Totals	\$58,525	\$46,987
Forest Management		
Timber Sales	\$1,021,531	\$723,904
Forest Improvement Fees	509,011	62,028
Totals	\$1,530,542	\$785,932
Minerals Management		
Oil & Gas Revenues		
Rentals/Bonuses/Penalties	\$186,386	\$106,779
Royalties	66,339	48,756
Aggregate Minerals		
Rentals	480	0
Royalties	250	0
Other Minerals		
Rentals/Penalties	30,673	9,655
Other	2,010	1,260
Totals	\$286,138	\$166,450
Real Estate Management		
Rights-of-way/Easements	\$582,877	\$369,163
Residential Leases/Licenses	695,538	800,957
Other Leases/Licenses	102,888	177,704
Totals	\$1,381,303	\$1,347,824
Other		
Trust and Legacy Interest	\$1,421,503	\$1,536,004
Other	0	1,725
Totals	\$1,421,503	\$1,537,729
TOTALS	\$5,277,315	\$4,532,837

rental charged per AUM is set by a formula using prices received for beef cattle in Montana. Grazing lands generated \$345,962 for universities in FY 2007 (see Table 16).

Figure 14

Distribution of Revenues from University System Trusts

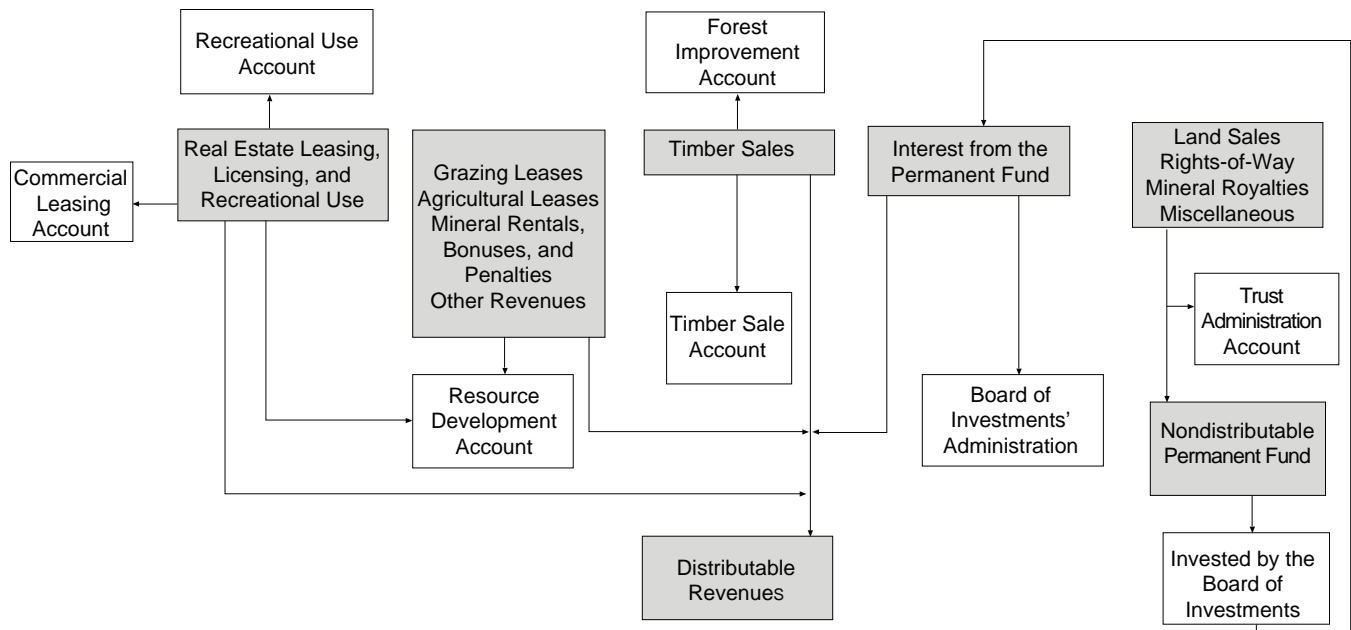


Table 14
University System Revenues by Trust FY 2007

Distributable Revenues Trust	Gross Distributable Revenues	Resource Development	Timber Sale Account	Trust Admin Account	Recreational Use Account	Commercial Leasing Account	Net Distributable Revenues
University of Montana	\$ 226,543	\$ 3,879	\$ 295	\$ 0	\$ 366	\$ 328	\$ 221,675
MSU - Morrill Grant ⁽²⁾	589,337	0	49,879		1,260	909	589,337
MSU - Second Grant	1,570,833	13,753	267,187	0	620	1,564	1,287,709
Montana Tech	1,005,615	18,311	6,456	0	1,169	6,752	972,927
State Normal School	652,675	6,357	21,216	0	1,260	2,058	621,784
Total	\$ 4,045,003	\$ 42,300	\$ 345,033	\$ 0	\$ 4,675	\$ 11,611	\$ 3,693,432

Nondistributable Revenues Trust	Gross Nondistributable Revenues	Trust Admin Account	Net Nondistributable Revenues	Permanent Fund Balance ⁽¹⁾
University of Montana	\$ 2,842	\$ 371	\$ 2,471	\$ 1,503,459
MSU - Morrill Grant ⁽²⁾	52,613	6,860	52,613	3,699,000
MSU - Second Grant	343,062	44,382	298,680	8,774,218
MT Tech	18,030	2,351	15,679	5,060,421
State Normal School	11,027	1,438	9,589	6,072,051
Total	\$ 427,574	\$ 55,402	\$ 379,032	\$ 25,109,149
Total Revenues	\$ 4,472,577	\$ 55,402	\$ 4,072,464	\$ 25,109,149

(1) Trust balances reflect deposit activity by DNRC only, and do not include valuation adjustments from investment activities by the Board of Investments.

(2) MSU-Morrill Grant administrative costs were transferred to the appropriation from fund 02297 per House Bill 19.

Table 15 Agriculture and Grazing Revenues		
Trust	FY 2006	FY 2007
University of Montana	\$82,442	\$85,948
MSU - Morrill Grant	130,071	164,117
MSU - Second Grant	20,718	22,303
Montana Tech	224,306	215,202
State Normal School	141,767	160,345
Total	\$599,304	\$647,915

Forest Management

Forest management activities are managed in four sections; forest product sales, forest inventory, forest improvement and resource management. General background information on bureau activities is available on the department's website: www.dnrc.mt.gov/trust/fmb/.

Table 16 University System FY 2007 Revenues and Production								
Trust	Grazing Revenue	Ag Revenue	Total Revenue	Wheat Bushels	Barley Bushels	Hay Tons	AUMs	CRP Acres
University of Montana	\$28,084	\$57,863	\$85,947	35,005	361	202	3,443	124.6
MSU - Morrill Grant	117,880	46,237	164,117	23,020		159	15,365	155.4
MSU - Second Grant	20,043	2,261	22,304	660		31	2,523	
Montana Tech	80,504	134,698	215,202	70,802	1,694	1,141	9,822	352.6
State Normal School	99,451	60,894	160,345	34,497	1,400	317	12,950	530.0
TOTAL	\$345,962	\$301,953	\$647,915	163,984	3,455	1,850	44,103	1,162.6

Forest Product Sales

During FY 2007, a total of \$723,904 in revenue was generated from timber permits and sales (see Table 17) and 3,026 thousand board feet was harvested from university trust lands (see Table 18).

Forest Improvement

In FY 2007, the department collected \$62,028 in Forest Improvement fees from the university lands. Table 19 shows the amount of forest improvement fees collected between FY 2005 and FY 2007 by trust.

Table 17 Timber Revenues			
Trust	FY 2005	FY 2006	FY 2007
University of Montana	\$20	\$110	\$620
MSU - Morrill Grant	118,561	1,327	104,649
MSU - Second Grant	1,050,918	658,738	560,577
Montana Tech	101,932	56,358	13,544
State Normal School	728,568	304,998	44,514
Total	\$1,999,999	\$1,021,531	\$723,904

Table 18 Timber Volume Harvested by Trust in Thousand Board Feet (MBF)		
Trust	FY 2006	FY 2007
University of Montana	0	0
MSU - Morrill Grant	5	532
MSU - Second Grant	1,977	2,206
Montana Tech	383	68
State Normal School	2,126	220
Total	4,491	3,026

Table 19 Forest Improvement Fee Collections			
Trust	FY 2005	FY 2006	FY 2007
University of Montana	\$0	\$0	\$0
MSU - Morrill Grant	0	0	0
MSU - Second Grant	205,208	99,407	56,500
Montana Tech	20,701	89,248	1,249
State Normal School	109,046	320,356	4,279
Total	\$334,955	\$509,011	\$62,028

Minerals Management

The Minerals Management Bureau is responsible for leasing, permitting, and managing oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements. Table 20 shows gross mineral revenues from FY 2005 to FY 2007.

Table 20 Mineral Revenue FY 2005 – FY 2007			
Trust	FY 2005	FY 2006	FY 2007
University of Montana	\$33,416	\$6,790	\$11,522
MSU - Morrill Grant	67,879	204,109	95,618
MSU - Second Grant	3,264	2,873	1,830
Montana Tech	16,959	48,064	38,557
State Normal School	23,694	24,303	18,923
Total	\$145,212	\$286,139	\$166,450

Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues by trust and activity are shown in Table 21.

Table 21
Mineral Revenues by Trust and Activity for FY 2007

Revenue	MSU Second	MSU Morrill	State Normal	Montana Tech	Univ of Montana	Total
Oil & Gas Leases		\$21,558	\$7,722	\$14,629	\$5,693	\$49,602
Non-drilling Penalties		20,164	2,552	18,905	2,290	43,911
Mineral LULs	120		390			510
Gas Royalties		44,207	4,549			48,756
Sand & Gravel Royalties	1,460	2,513		5,023	659	9,655
Oil & Gas Bonus Payments		7,176	3,210		2,880	13,266
In Lieu of Exploration	250		500			750
Total	\$1,830	\$95,618	\$18,923	\$38,557	\$11,522	\$166,450

Real Estate Management

The Real Estate Management Bureau (REMB) administers activities on lands classified as “other” and all secondary activities on lands classified as grazing, agriculture, or timber. In FY 2007, the University System trust land generated gross revenues of \$369,163 from one-time easement income, and \$978,661 from annual lease/license revenue for a total of \$1,347,824 (See Table 22 and 24).

Table 22
Real Estate Management Revenue by Trust

Trust	FY 2006	FY 2007
University of Montana	\$9,628	\$34,825
MSU - Morrill Grant	22,953	36,909
MSU – Second Grant	397,807	792,231
Montana Tech	853,243	432,131
State Normal School	97,672	51,728
Total	\$1,381,303	\$1,347,824

Easement income is derived from one-time payments assessed at the “fee” price, the appraised price as if the property were purchased outright. A large easement for a sewage treatment plant in St. Regis contributed \$315,700 to the MSU Second Grant.

Lease and license income is calculated by multiplying a percentage of the appraised land value to determine an annual payment. MSU Second Grant generated the highest lease/license income in FY 2007, due to the large number of leases and licenses (approximately 230) associated with this beneficiary. More than 80 percent of these leases are residential leases in the Southwestern Land Office, including Placid Lake, Seeley Lake, and Morrell Flats near Seeley Lake (See Table 23).

Montana Tech has 132 leases and licenses in Northwestern Montana on land valued for recreational purposes, near Beaver Lake, Echo Lake, and Lake Rogers. Montana Tech also has one large industrial lease that generates approximately \$50,000 annually.

Table 23	
Residential Leases by Trust	
Trust	FY 2007
University of Montana	1
MSU - Morrill	2
MSU - Second	197
Montana Tech	107
State Normal School	16
Total	323

Real estate revenue on the University of Montana lands is low due to the low number of leases (6 leases) and land use licenses (5 licenses). However, revenue increased in FY 2007 on the University of Montana lands due to a new land use license to the Gallatin County Waster Management District. This license generated approximately \$20,000 in FY 2007 for stockpiling excavated soils in association with the construction of a new cell in the Gallatin County Landfill.

Table 24			
Real Estate Management Revenue by Trust FY 2007			
Trust	Leases/Licenses	Easements	Total
University of Montana	\$32,642	\$2,183	\$34,825
MSU - Morrill Grant	31,016	5,893	36,909
MSU - Second Grant	450,629	341,602	792,231
Montana Tech	419,124	13,007	432,131
State Normal School	45,250	6,478	51,728
Total	\$978,661	\$369,163	\$1,347,824

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION
1625 Eleventh Avenue
P.O. Box 201601
Helena, MT 5620-1601
www.dnrc.mt.gov



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170 copies of this document were printed at an estimated cost of \$1.96 per copy. The total cost of \$325.00 includes \$325.00 for printing and \$0 for distribution.

School Trust Lands in the foreground of the Sawtooth Mountain Range.
Casey Kellogg photo.